

# *German-Jewish Bankers in World Politics The Financing of the Russo-Japanese War*

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The financing of the Russo-Japanese War, a conflict that lasted only some eighteen months but decisively altered the equilibrium of world power, affords a highly visible example of German-Jewish bankers in world politics at the highest level. The bare facts of their involvement are worth recounting in themselves, but also suggest lines of departure for research into questions of motive and indeed also of myth, that durably potent myth concerning the alleged existence and sinister workings of an international Jewish banking conspiracy. Finally, if only by implication, this subject raises fundamental methodological issues stemming from the preoccupation of many historians with vast anonymous forces of social class and economic structure; for in the financing of the Russo-Japanese War we have a vivid demonstration of the historic role in great events of individuals, four men: Jacob H. Schiff, Sir Ernest Cassel, Max Warburg, all of them Jewish bankers of German origin; and Korekiyo Takahashi of Japan. Of all these principal actors more in due course.

First a general word about motive, that most elusive factor in analysing human affairs, especially after the passage of considerable time. In a monograph on the financial aspects of the Franco-Russian alliance, the French historian René Girault writes:

"... even if the person that concerns us is a professional with numbers, if he thinks of risks and profits expressed in percentages, Francs and Roubles, he remains a human being who by reason of his judgement and will has possibilities of choice. The effort of an economic historian should therefore be directed toward understanding and explaining these choices ... But men of affairs one has known are not very explicit about the reasons for acting one way or another; in financial matters one is seldom given to explaining in writing the motive of some decision. When the Board of Directors of a bank meets to take a decision, the dry minutes reflect very incompletely the actual course of the meeting: fortunately, in a certain number of cases, personal correspondence has survived, in which the author of a letter permits himself certain revelations about the reasons for his actions. At these points one is at the very heart of economic history: the life of its protagonists, the discernible human factor amid the incomprehensibility of all those numbers."<sup>1</sup>

Aspects of "the discernible human factor" are of intrinsic interest in biographical terms and for the light they may shed on the myth of the "international Jewish banking conspiracy". That myth may essentially be summarised as the belief that the Jews are not only concentrated heavily in the higher ranks of international finance, but that they there pursue, in conspiratorial solidarity with their brethren in other countries, specifically Jewish aims, often to

<sup>1</sup>René Girault, *Emprunts russes et investissements français en Russie, 1887-1914*, Paris 1973, p. 11.

the detriment of non-Jews. In the abundant literature on this subject,<sup>2</sup> the themes of Jewish financial power, political influence and international ties are traditionally linked in one paranoid vision: as Fritz Stern puts it with characteristic felicity, it is “the fear that demonstrable Jewish preeminence proved hidden Jewish *domination*”;<sup>3</sup> that “the Jews were at the heart of an international conspiracy that was corroding the European character and the European order”.<sup>4</sup> Indisputably, the connections between the worlds of finance, diplomacy and politics were extremely close in the Edwardian era, and the actors in this story – Schiff, Cassel, Warburg and Takahashi – moved in all those worlds with ease and authority. Indeed, the world of affairs could accurately be described, again in Fritz Stern’s words, as “one great web of mutual interest, advantage, need”.<sup>5</sup> Whether such mutuality of interest necessarily implied identity of aims, let alone conspiracy, is of course another issue, to be examined hereafter.

To begin, the bare facts of the Russo-Japanese War may briefly be recalled. The conflict grew essentially out of rivalries between Russia and Japan in Manchuria and Korea; the Russian failure to withdraw from Manchuria, and Russian penetration into North Korea, clashed head-on with Japanese attempts to carve out and maintain spheres of influence in those areas. In the diplomatic exchanges that preceded the outbreak of hostilities, the Russian Government, propelled by influential advocates of Far East adventurism, showed itself inflexible, willing to risk war in the belief that the Japanese – habitually referred to by the Tsar himself as “yellow monkeys” – would easily be defeated; and, even more blindly, that internal disaffection within the Russian Empire could be appeased by a brief, easily won war.

It was Japan that broke off negotiations and severed diplomatic relations on 6th February 1904. Two days later, without warning, elements of the Japanese Navy attacked and blockaded the Russian squadron at Port Arthur in Southern Manchuria. A series of Japanese land and sea victories against a sluggish and inept adversary culminated in the fall of Port Arthur in January 1905 and victory at Mukden two months later.<sup>6</sup> The most dramatic single episode of the war, the near-total destruction of the outmanoeuvred and disastrously led Russian Baltic Fleet, took place in the Tsushima Straits in May 1905. One month later, President Theodore Roosevelt offered his mediation to both combatants; and the treaty that ended the conflict was signed in Portsmouth, New Hampshire at the end of August.

The war, extensively analysed and chronicled by contemporary observers, was widely seen at the time as heralding the emergence of Japan as a first-rank

<sup>2</sup>See Norman Cohn, *Warrant for Genocide. The Myth of the Jewish World-Conspiracy and the Protocols of the Elders of Zion*, London 1967; Léon Poliakov, *The History of Anti-Semitism*, New York 1965–1975; A. Toussnel, *Les juifs, rois de l'époque. Histoire de la féodalité financière*, Paris 1888; Gisela C. Lebzelter, *Political Anti-Semitism in England, 1918–1939*, London 1978.

<sup>3</sup>Fritz Stern, *Gold and Iron: Bismarck, Bleichröder and the Building of the German Empire*, New York 1977, p. 503.

<sup>4</sup>*Ibid.*, p. xviii.

<sup>5</sup>*Ibid.*, p. xvi.

<sup>6</sup>See John Albert White, *The Diplomacy of the Russo-Japanese War*, Princeton 1964, pp. 135–154.

industrial power—"Asia advancing, Europe falling back" as it was put by General Sir Ian Hamilton, the senior British military observer<sup>7</sup>—as well as an inauspicious augury for the Imperial Russian regime, which found itself by the end of the war struggling with massive internal unrest, and substantial losses in men, matériel and international prestige.

Among the most impressive of Japan's triumphs was the series of loans in the international capital markets that gave her the financial means to prosecute the war and firmly established her international credit standing. Japan's success in the financial sphere is the more remarkable when her population of some 45 million in 1900 is compared with Russia's more than 106 million; her pre-war gold reserves of only £11.7 million and Russia's £106.3 million; and similarly striking disparities in other conventional measures of economic strength: Russia's foreign trade nearly three times as large as Japan's, and her national budget some ten times as large.<sup>8</sup>

At the outset of the conflict, and again late in 1904, Count Sergei Witte, the Russian Minister of Finance between 1902 and 1903, boasted that "the Japanese cannot resist our finances . . . Perhaps the Japanese can carry on the war one and a half, two, at the most two and a half years. Considering the finances alone, we can keep it up for four years. Other factors being left out of account, the Japanese can therefore be brought to sue for peace by their financial ruin."<sup>9</sup> And yet, as Witte later recorded in his *Memoirs*, by the time peace negotiations opened at Portsmouth, Russia had exhausted its means and lost its international credit standing. He wrote: "There was not the slightest hope of floating either a domestic or a foreign loan. We could continue the war only by resorting to new issues of paper money, that is by preparing the way for a complete financial and consequently economic collapse."<sup>10</sup>

Japan's unprecedented triumph in the financial arena was not by any means solely a reflection of her military prowess: it was the work very largely of two individuals, Korekiyo Takahashi, then Vice-Governor of the Bank of Japan and Special Commissioner for financial matters, and Jacob H. Schiff, senior partner in the New York investment banking firm of Kuhn, Loeb & Co. The close personal relationship between these two was a key element in Japanese financial diplomacy and illustrates in striking fashion the human factor in financial affairs.

Jacob H. Schiff was born in Frankfurt a. Main in 1847, came to the United States at the age of eighteen, and almost immediately went into the commodities brokerage business. In 1875 he married the daughter of Solomon Loeb, one of the founding partners of Kuhn, Loeb & Co., and entered the banking firm that Schiff was to guide to a position within the American financial community second only to the legendary House of Morgan. A man of awesome presence and strong, occasionally rigid convictions, Schiff was throughout his life intensely devoted to

<sup>7</sup>Quoted in David Walder, *The Short Victorious War*, London 1973, p. 299.

<sup>8</sup>Statistics from Edgar Crammond, 'Paper on the Finance of War', 1910, in CAB 17.81.04077, Public Record Office, London.

<sup>9</sup>Quoted in *Forum*, April 1905, London. See also Gary Dean Best, 'Financial Diplomacy: The Takahashi Korekiyo Missions of 1904–1905', in *Asian Studies*, Vol. XII (April 1974), No. 1, p. 52.

<sup>10</sup>Count Sergei Iu. Witte, *Memoirs*, London 1921, p. 135.

the welfare of the Jewish community: not content with benefactions on a vast scale, he was actively involved on boards and committees, constantly visiting, advising, sometimes running the charities that he also generously supported. Linked to the Hamburg banking house of M. M. Warburg & Co. through the marriage of his only daughter, Frieda, to Felix Warburg, Schiff enjoyed close personal relations with all the partners of the Hamburg house, and especially – despite their differences in temperament – with Max Warburg, then its senior partner.<sup>11</sup>

Schiff's great friend, Korekiyo Takahashi, at the time of the Russo-Japanese War a comparatively young Vice-Governor of the Japanese central bank, went on to become Finance Minister and later sent his daughter to New York to be brought up in the Schiff household. After a distinguished political career he was forced into retirement and eventual suicide by the shift toward militarism in Tokyo during the 1930s.<sup>12</sup>

The third major personage in this story was Sir Ernest Cassel, born in Cologne in 1852, who has been called with some accuracy "the last Court Jew" for his quite exceptional position at the Court of St. James's, where he was an intimate friend of King Edward VII. In an essay on Cassel<sup>13</sup> Kurt Grunwald repeats the story that when King Edward, after an evening at the theatre, asked the Portuguese Minister whether he too had seen Oscar Wilde's new play, *The Importance of Being Earnest*, the envoy answered, "No, Sire, but I have seen the importance of being Ernest Cassel." Cassel's financial operations ranged from Swedish iron and steel to American and Mexican railways, banks in North Africa and the Middle East, and large agricultural and other enterprises in Egypt. He was a creative entrepreneur on a global scale, and his charitable gifts were legendary as well in their magnitude. Above all, Cassel was the *Vertrauensmann* par excellence, an intimate advisor and friend to many of the leading personages of his day, including Winston Churchill. A not entirely friendly observer, Sir Robert Vansittart, said of Cassel: "He exercised great influence in his time, not only in his own right as a magnate of money, but by acting as financial advisor to the King and all of the King's friends of both sexes. His shrewd judgement was of use to everybody, including himself and the nation."<sup>14</sup>

Considering initially the course of Russian war finance, let us examine the interplay between political and purely financial factors.<sup>15</sup> Very shortly before the outbreak of war, *The Economist* of London, in a characteristically acerbic editorial on Russian finances, made some prophetic comments:

"The outstanding feature of Russian finance . . . is that for years past the country has been spending far beyond its income. This it has managed to do only by constant borrowing; but

<sup>11</sup>See Cyrus Adler, *Jacob H. Schiff, Life and Letters*, New York 1928; Stephen Birmingham, *Our Crowd*, New York 1967.

<sup>12</sup>See Gary Dean Best, 'Financial Diplomacy', *loc. cit.*

<sup>13</sup>Kurt Grunwald, "'Windsor-Cassel' – The Last Court Jew. Prolegomena to a Biography of Sir Ernest Cassel", in *LBI Year Book XIV* (1969), pp. 119–161.

<sup>14</sup>Robert Vansittart, *The Mist Procession*, London 1958, p. 61.

<sup>15</sup>For a detailed contemporary discussion, see Karl Helfferich, *Das Geld im russisch-japanischen Kriege*, Berlin 1906. Loans will be referred to in this article in currencies in which they were issued; for purposes of rough comparison, rates of exchange for the period were in the range of 1£=\$5, Fr. 25 or Japanese ¥10.

that is not the plain, harsh way in which the matter is put in the official statements . . . if Russia became involved in a war with Japan, fresh borrowing abroad would be impossible. We do not mean to imply that Russia will be debarred from going to war by fear of lack of means with which to pursue it. There is another resource upon which she can fall back. She can, as she has done before, set the printing press to work, and turn out masses of inconvertible paper money. Such a course, however, would be destructive of her credit . . ."<sup>16</sup>

Russia's need for foreign funds was indeed chronic, and very large in scale. Her requirements had classically been met in the French capital market: at the beginning of the Russo-Japanese War, Russian bonds quoted on the Paris Bourse totalled some 7 to 8 billion Francs (between 280 and 320 million Pounds sterling). Despite optimistic statements issued annually by her Ministers of Finance, Russia had large budget deficits year after year, and was compelled to have continual recourse to new loans in order to provide for debt service on the older issues. This procedure, known in banking parlance as "rolling over" debt, is by no means unknown today, especially among so-called less developed countries. Russia, comparatively undeveloped at the turn of the century, made much of her substantial cash balances; but these consisted mostly of the proceeds of loans and deposits of the State Bank, as was repeatedly pointed out by London observers.

The peculiar nature of the French capital market, in which smaller investors predominated, made it comparatively easy to place these massive Russian loans. No securities, except for French Government *rentes*, were more widely held by small savers—clerks, shopkeepers, thrifty peasants—some 1.6 million of them. Russian bonds, denominated in comparatively small amounts, appealed to modest investors who were attracted by high yields and Russia's reputation as never having defaulted on her debts.<sup>17</sup> Russian bonds were indeed deemed such a solid investment that they were called *pères de famille*; their prices tended to fluctuate in sympathy with those of French *rentes* themselves.

There was another factor in the French market, one that astonishes us today, accustomed as we are to market regulation by a self-policing Stock Exchange and by government bodies: the prices of Russian bonds were artificially supported, in the first instance by massive purchases on behalf of the Russian Government itself and the French banks that had sponsored the bond issues; and then, more subtly, by equally massive bribing of the French press to create a suitably favourable market atmosphere. Such operations included the issue of Russian Government decorations as well as cash to particularly influential journalists. For these considerations, the French press in Paris and the provinces gladly issued glowing reports on the health of the Russian economy, and the comparatively minor nature of the setbacks she was to undergo in the course of the war. The agent and manager for this large-scale effort, referred to as *la cuisine*, was the confidential representative of the Russian Government in Paris, Arthur Raffalovitch, who has left us a vivid if self-serving record of his activities, a gamey story of large-scale payments to newspapers and their staffs throughout France, and constant demands for more, amounting to blackmail pure and simple, orchestrated

<sup>16</sup>*The Economist*, London, 23rd January 1904.

<sup>17</sup>See Herbert Feis, *Europe the World's Banker, 1870-1914*, New York 1964, p. 218.

through the chief broker on the Paris Bourse, who personally and through his firm had a large stake in Russian bonds.<sup>18</sup>

Arthur Germanovitch Raffalovitch, born in 1853 to a wealthy Jewish banking family of Odessa, was in his own right an extraordinary figure. After studies in Paris and Bonn, he became the confidential secretary to the Russian Ambassador in London, and at the same time contributed to such major French journals as the *Journal des Débats* and *Le Temps*. His subsequent role, always behind the scenes, was that of the principal Russian publicity agent in France, with special concern for press relations and their effect on the placement of Russian Government bonds on the French market. The annual review he edited, *L'année financière*, was itself influential and highly regarded among the banking fraternity. Raffalovitch, by all contemporary accounts highly resourceful and intelligent, cannot have been blind to the irony that his skilled secret diplomacy was a vital asset to a regime that despised and persecuted his fellow-Jews.

Despite the efforts of individuals, however influential, markets have their own imperative: almost immediately upon the outbreak of war on 8th February, 1904, there was a dramatic fall on the Paris Bourse in both Russian bonds and French *rentes*. Although the French Government had expressed a desire to maintain neutrality in the Far Eastern conflict, it was clear that France and Russia were linked in an uncomfortable financial intimacy. In order to defend the prices for its own securities, the French Government was compelled to support efforts to shore up the market for Russian bonds.

As early as 9th February, the *Banque de Paris et des Pays-Bas*, in charge of *la cuisine* for the next three months, was given a fund of Fr. 200,000 by the Russian Ministry of Finance for its support operations, which were only partially successful. A dramatic break in prices was averted, to be sure; but the operation was costly, and the banks were of course aware that the heavier their purchases the greater their difficulty in carrying large bond positions, and the more serious the danger if a true market collapse should occur.

On 15th April, against a background of Russian defeats – two days earlier the hapless commander of the Far East squadron, Admiral Makarov, and almost his entire crew, were lost when his flagship blew up on a mine outside Port Arthur – representatives of the French banks arrived in St. Petersburg to negotiate a new loan. These banks, which rotated the management of Russian loan underwriting among themselves, were the *Crédit Lyonnais*; *Banque de Paris et des Pays-Bas*, affiliated with Rothschild interests; and Hottinguer & Cie. After considerable wrangling over amount and terms, the Russian Ministry of Finance ultimately bowed to realities and a loan agreement was signed on 7th May providing for the immediate issue of Fr. 400 million of five-year bonds, with the banks retaining an option to take up another tranche of Fr. 400 million within a year. The bonds bore a 5% coupon and were issued at a discount to yield 6%.<sup>19</sup>

For the banks, it was a very attractive piece of business: they took an immediate

<sup>18</sup>Arthur G. Raffalovitch, *L'abominable vénalité de la presse*, Paris 1931.

<sup>19</sup>These yields should be compared with the prevailing Paris discount rate of 3%, and the yield on Italian Government 5% bonds of similar maturity, which were quoted at a premium to yield about 4½%.



underwriting fee of  $2\frac{1}{2}\%$ , and when the books were closed in July on this syndicate, it was calculated that they had earned another  $1\frac{3}{4}\%$  in selling commissions per bond.<sup>20</sup> The bonds, in suitably small Fr. 500 denominations, were widely and firmly distributed, tucked away in small portfolios throughout the country. Moreover, the press benefited handsomely from several millions of Francs spent through Raffalovitch and his agents in order to give the market in Russian bonds the "correct orientation".

The issue was indeed so successful that the second Fr. 400 million was taken up between 11th June and the end of July. Moreover, the loan paved the way for very substantial orders to the French munitions and steel industries. Between the start of the war and the end of August 1904 such orders amount to Fr. 65 million.<sup>21</sup> So trusting were the small investors who put their faith in Russian bonds, and so inadequate, thanks to *la cuisine*, were reports in the French press of the glaring inadequacies in Russian military and naval leadership, that the prices of Russian bonds resumed their firmness; and the bankers, their appetites whetted by extraordinary profits in the recent issue, proceeded to consider the possibility of another loan operation.

In mid-October, a delegation of French bankers was received in St. Petersburg for discussions initially concerning a Fr. 800 million loan in Paris, with a similar large amount to be split between syndicates in Berlin, Amsterdam and Russia itself. While the French banks were not averse to internationalising the loan in order to minimise their risks, the Quai d'Orsay insisted for its part that no German banks be involved: Russian financial dependence on Paris was not unwelcome to the French Government, which in any event was concerned to whittle down Germany's growing role as an exporter of capital.<sup>22</sup> While negotiations dragged on, the Russian Government managed independently to float an interim loan in Germany for M500 million. These bonds, bearing a  $4\frac{1}{2}\%$  coupon, were issued at a discount to yield 5.6%, by a syndicate under the leadership of Mendelssohn & Co., S. Bleichröder, *Disconto-Gesellschaft* and the *Berliner Handelsgesellschaft*.

But in the meanwhile, two dramatic events occurred that cast doubt on Russia's ability to undertake any further foreign borrowing, or indeed to continue prosecuting the war: on 2nd January 1905, Port Arthur was surrendered to the Japanese, and on 22nd January, so-called Bloody Sunday, a peaceful demonstration in St. Petersburg was put down with great loss of life, and a growing wave of strikes and disorders spread throughout the Russian Empire. Far worse was to come; but the market reaction was alarming enough to distress the banks. From January 1905 there was a split among the French bankers: the joint-stock deposit banks, especially those such as the *Crédit Lyonnais* with branches in Russia, were very much opposed to further Russian loan operations, no matter how attractive the terms. The investment banks, however, the *banques d'affaires*, led by *Banque de Paris et des Pays-Bas*, were on the contrary determined to

<sup>20</sup> Helfferich, *op. cit.*, p. 91.

<sup>21</sup> Feis, *op. cit.*, pp. 125–127.

<sup>22</sup> *Ibid.*, pp. 196–201.

press ahead, and to beat out potential German competition in financing the Russian Imperial Government.

On 17th February the Grand Duke Sergei was assassinated and the wave of strikes and rural unrest in Russia increased. The same day, the Russian Minister in Paris sent an anguished cable to his government reporting that the price of Russian bonds was plummeting on the Bourse at a dizzying speed. A few days later, Raffalovitch pleaded with his superiors in St. Petersburg: "have some victories if you can, and reestablish order; that is what will calm the fears of the public".<sup>23</sup> On 9th March Raffalovitch received a further Fr. 235,000 for the press; the next day the Russian front at Mukden collapsed, and the Syndic of the *agents de change* who dealt in Russian bonds addressed a virtual ultimatum to the banks contemplating a Russian loan, as well as to the Russian Minister of Finance, announcing flatly that no new Russian bonds would be admitted to quotation on the Paris Bourse unless Fr. 250,000 per month were to be available for distribution to the press and for market support operations. The large scale and insolence of this demand appear to have shocked even Raffalovitch, but it was duly communicated to St. Petersburg, where representatives of the French banks hardened their terms for a proposed loan, and insisted that in deteriorating markets their compensation in underwriting fees would also have to be increased.

On 11th March, with the fall of Mukden, the Russian Minister of Finance capitulated to the bankers' terms and agreed to an issue of Fr. 600 million of 5% bonds, half to be issued immediately, half later, depending on the market; to be bought by the syndicate at 91½ and sold at 98—a more than 6% spread for the banks. But by now the *Crédit Lyonnais* had been deluged with panicky communiqués from its branches in Odessa, Moscow and St. Petersburg, reporting strikes, runs on foreign exchange, and the urgent renting of strong-boxes by anxious clients. Thoroughly alarmed by such reports, the banks abruptly decided on 12th March to postpone the loan.<sup>24</sup>

That decision was so disastrous in its implications that the Russian Government suppressed the news in St. Petersburg, and bitter private complaints were made to the French Ambassador, who reported that the Russian Minister of Finance had said "why did we flood the French Press with money if this was to be the result?" One ungrateful French journalist pointed out that "France no longer appreciates the honour of providing for the extravagances of her ally".<sup>25</sup> It was *The Economist* that spelled out the full dimensions of the dilemma in which Russia now found herself:

"There is, therefore, as matters now stand, no prospect of the Russian Treasury receiving further replenishment from Paris . . . the process has come to an end, and . . . these houses [the French banks] are not in a position to carry more themselves, nor are they able to continue selling, for the very good reason that no one will buy. And the danger undoubtedly exists that the widespread discussion of Russia's financial difficulty that is now taking place in France may lead to a panic on the Bourse that may have far-reaching consequences . . . we may be allowed to hope that the financial troubles which beset her [Russia's] government prove to be a potent influence for peace . . ."<sup>26</sup>

<sup>23</sup>Quoted in Girault, *op. cit.*, p. 412.

<sup>24</sup>*Ibid.*, p. 417.

<sup>25</sup>*Ibid.*

<sup>26</sup>*The Economist*, London, 18th March 1905.



The newspaper reinforced the argument a fortnight later: "if the rulers of Russia are not dead to reason and argument, the attitude adopted towards them by the money markets of the world ought to bring them to their senses". After referring to speculation against the Rouble in Berlin and elsewhere, *The Economist* reported "the internal condition of the country is already deplorable" and concluded that "the Government of the Tsar is not only unable to borrow at the moment, but has no prospect of raising a loan for the purpose of carrying on the war".<sup>27</sup>

The Russian Government was indeed at an impasse: tax increases were imposed on salaries, alcohol, malt and beer. But these measures yielded comparatively little extra revenue and further antagonised a population already in an insurrectionary mood. An internal loan of Rs. 200 million was issued in March 1905 and taken up sullenly by the Russian banks; it covered only two months' war expenditures. A further issue, of 9-month Treasury bills, also 5%, in the amount of Rs. 200 million was issued in May, and absorbed as to three-quarters only by German banks, including Mendelssohn and Bleichröder; this issue was only possible because the discounts and commissions given the banks amounted to a generous 6%.

After the disaster of Tsushima, an event on which *The Economist* commented "our exhausted faculty of wonder has been called upon to make a final effort",<sup>28</sup> the only further operation possible to the hard-pressed Russian Government was another internal loan, this one issued on 8th August, in the amount of Rs. 200 million, tax-free for 48 years, priced at 95 to yield nearly 5.7%. The loan was nonetheless so unattractive that there was no public subscription: instead, half the issue was placed with the savings banks, with the Russian State Bank itself absorbing Rs. 50 million and the commercial banks compelled to take up the remaining 50 million. This amounted to a forced loan; and a confession of failure reflected in Count Witte's subsequent admission.

Japan's experience was an altogether different one. Her war loans, which covered a major portion of the total cost of the war, were indeed one of her major triumphs: "these loans were, to a large extent, won on the battlefield".<sup>29</sup> True, but that is only part of the story. The victories of Japan did of course improve her credit standing in the international capital markets, but the war nonetheless represented a very significant financial strain, overcome only through the prudent management of Japan's gold reserves, and the astute fiscal and procurement policies that were tenaciously pursued throughout the conflict.

Korekiyo Takahashi, in a memorandum prepared for inclusion in Cyrus Adler's biography of Jacob H. Schiff<sup>30</sup> recounted how, as Japan's special finance commissioner, he was sent abroad to canvass loan possibilities. Having met with a polite but unhelpful initial reception in New York, he proceeded to London,

<sup>27</sup>*Ibid.*, 1st April 1905.

<sup>28</sup>*Ibid.*, 20th May 1905.

<sup>29</sup>White, *op. cit.*, p. 168.

<sup>30</sup>Adler, *op. cit.*, Vol. I, pp. 213–230. See also Gary Dean Best, 'Financing a Foreign War: Jacob H. Schiff and Japan, 1904–1905', in *American Jewish Historical Quarterly*, LXI (June 1972), No. 4, pp. 313–324.

where by April 1904 he had persuaded a London banking group to agree in principle to float a bond issue of £10 million, secured on the Customs receipts of Japan. The bankers were however prepared only to underwrite an initial tranche of £5 million, despite Japan's pressing need for more. At that juncture, Takahashi met Jacob H. Schiff at a dinner party given by a London financier, and found to his astonishment that Schiff was very receptive to Japan's requirements. Schiff plied Takahashi with questions as to Japan's economy and her post-war plans; when he expressed doubt that £5 million would be adequate for Japan, Takahashi explained that the London market was unwilling to accept any more. The following day, Takahashi was told that Schiff had offered, on behalf of Kuhn, Loeb & Co., to underwrite the remaining £5 million in New York, through a syndicate to be headed by the firm. This willingness was the more impressive because it preceded the decisive Japanese victory on the Yalu River of 1st May. On 10th May, therefore, £10 million of 6% bonds were issued in London and New York, at a price of 93½, and the issue was an immediate success. The American underwriting group of Kuhn, Loeb & Co., National City Bank and the National Bank of Commerce was swamped with applications for over five times the amount of bonds available in New York; in the after-market the bonds immediately rose to a premium, and American participation gave the loan great prestige. Takahashi later commented:

"It cannot be gainsaid, therefore, that Mr. Schiff's deal was a very bold venture, especially if the fact is taken into consideration that foreign investment was not yet a beaten track of American high finance, and surely he did not make the venture for the sake of mere profit. With a keen sense of justice which, I noticed on some occasions, went to the verge of severity, he was impressed by the justness of Japan's cause . . . At the same time, he had a grudge against Russia on account of his race. He was justly indignant at the unfair treatment of the Jewish population by the Russian Government, which had culminated in the notorious persecutions. He harbored no ill-will toward the Russian people; but he thought the Imperial regime of Russia was utterly antiquated . . . He felt sure that if defeated, Russia would be led in the path of betterment, whether it be revolution or reformation, and he decided to exercise whatever influence he had for placing the weight of American resources on the side of Japan . . . Mr. Schiff continued to be unfailing in meeting the needs of the Japanese Government in respect of the sinews of war."<sup>31</sup>

Schiff made no bones about his attitude, either in public or private utterance. In a letter he addressed from Frankfurt on 5th April 1904 to Lord Rothschild, head of the London banking house, he wrote:

"I am afraid troubled times are still in store for our unfortunate co-religionists in the Czar's dominion, and it can only be hoped for their sake as well as for the good of Russia itself, that the conflict between Russia and Japan will in its consequences lead to such an upheaval in the basic conditions upon which Russia is now governed that the elements in Russia which seek to bring their country under constitutional government shall at last triumph . . . It will be slow, indeed very slow work, until this is accomplished, but meantime we can all help it on by making it, each as far as is in his power, impossible for the Russian Government as at present constituted to strengthen itself. I pride myself that all the efforts, which at various times during the past four or five years have been made by Russia to gain the favour of the American markets for its loans, I have been able to bring to nought . . . May not a like position be counted upon as far as the influential and important Jewish banking houses all over Europe are concerned? Unfortunately, heretofore this – you know it, my Lord, better than I do – has not been the case, but assuredly, when the Russian Government again applies to the European

<sup>31</sup> Adler, *op. cit.*, Vol. I, p. 217.

money markets, as it before long must do and to a large extent, may we not hope that Jewish bankers of influence will not again be satisfied with promises on the part of the Russian Government as to its good behaviour toward its unfortunate Jewish subjects—promises as readily broken as made—and not only decline cooperation, but work with all their might against any Russian loans so long as existing conditions continue. With all the experiences recent years have brought us, it would indeed be an undignified spectacle if this turned out otherwise . . . ”<sup>32</sup>

As far as the continent was concerned, Schiff's appeal fell on deaf ears: Bleichröders, the *Banque de Paris et des Pays-Bas* and the French Rothschilds all took up Russian loans in October 1904 and even in May 1905.

As to Japan, despite the reservations of the banking group which feared flooding the market with Japanese paper, a second bond issue was successfully launched in the middle of November, in the amount of £12 million. Since the new bonds were secured by a second lien on the Customs revenues, the terms were somewhat inferior to those of the first issue—the bonds, with a 6% coupon, were priced to yield nearly 8%—but the issue was again over-subscribed, by some 13 times in London and nearly four times in New York. *The Economist* commented: “The reception accorded to the announcement of the issue must be exceedingly gratifying to the Japanese Government, the new bonds being quoted on the Stock Exchange at a substantial premium . . . the Japanese people are losing neither their hearts nor their heads, but are assiduously pursuing the task of providing the money necessary for the war . . . At present there is no indication of enfeeblement, financial or otherwise, although the drain upon the country has indubitably been very severe . . . ”<sup>33</sup>

As Japan progressed from one military victory to another, the market for her bonds improved accordingly, and on 25th March 1905 yet another issue, this one in the far larger amount of £30 million of bonds was floated, at the reduced interest rate of 4½%, with a twenty-year maturity. These bonds, secured on the Japanese government tobacco monopoly, were sold at 90, and over 50,000 subscribers in Great Britain applied; their subscriptions, together with substantial subscriptions through agents on the Continent, totalled nearly 11 times the London share of the flotation. In the United States, applications totalled about seven times the United States tranche of £15 million, and the offices of Kuhn, Loeb & Co. were besieged by eager applicants.<sup>34</sup> In both countries, a large percentage of applications came from small subscribers. Drawing conclusions from the unmistakable enthusiasm of the investing public, *The Economist* observed “there is a dramatic side to the fact, that at a time when Russia has absolutely failed to raise further money, Japan is issuing a larger loan than before at a lower rate of interest”.<sup>35</sup> And again, a week later: “the striking success which has attended the issue of the new Japanese loan, both here and in the United States, ought to present itself to the Tsar and his advisers as a potent argument in favour of peace . . . Japan's credit has improved with successive victories, while that of Russia has declined with her corresponding defeats.”<sup>36</sup>

<sup>32</sup>*Ibid.*, Vol. II, p. 121.

<sup>33</sup>*The Economist*, London, 12th November 1904.

<sup>34</sup>Gary Dean Best, ‘Financing a Foreign War’, *loc. cit.*, p. 317.

<sup>35</sup>*The Economist*, London, 25th March 1905.

<sup>36</sup>*Ibid.*, 1st April 1905.

Even as rumours, and then actual preparations for a peace conference went forward following the resounding Japanese victory at Tsushima, Takahashi and Jacob Schiff, now close personal friends, canvassed the possibility of floating yet another substantial loan. While the money was designed to meet the expense of continuing the war if necessary, it was also contemplated that if the peace negotiations were successful the proceeds should be used to evacuate the Japanese armies from Manchuria, and for paying servicemen's and survivors' bonuses. Schiff, through his family links with the house of M. M. Warburg & Co. in Hamburg, was able to enlist a German syndicate, led by the *Deutsch-Asiatische Bank*, to participate as co-underwriters for a third of the proposed issue. The Japanese Government for its part welcomed such participation, and since Germany had long been a source of funds for Russia, the capture of the Berlin market by Japanese war bonds represented a substantial coup for Tokyo's financial diplomacy.

Despite the reluctance of the London group, which felt that this new issue followed much too closely on the heels of its predecessor, a further £30 million of twenty-year bonds were floated on 11th July, evenly divided among London, Berlin and New York underwriters. These bonds bore a 4½% coupon and were issued at a price of 90. Several days before the issue, Schiff had privately predicted that "people are so crazy about Japanese loans that in spite of the great stagnation which prevails in the whole investment field it appears that the public subscription will be a success".<sup>37</sup> So it proved: the London and German tranches of £10 million each were over-subscribed by ten times, while the New York share, also of £10 million, was over-subscribed four times. On 5th September 1905 the peace treaty between Russia and Japan was signed at Portsmouth, New Hampshire, ending the war.

The scale of foreign borrowing was unprecedented for Japan; the success of that borrowing, with each bond issue over-subscribed many times, and progressively improved terms despite the vast increase in Japan's public debt, was without doubt an enormous political as well as financial victory for Japan. Only a decade earlier, at the conclusion of the Sino-Japanese conflict, Japan found Russia, Germany and France solidly arrayed against her in order successfully to deprive her of the Manchurian spoils she had won by feats of arms. Japan's painful isolation of those days had partially been overcome by the Anglo-Japanese alliance of 1902, but the earlier humiliation still rankled. Japan's conquests of the London, New York and then Berlin financial markets thus represented a very important breakthrough; it was Russia that, by 1905, found itself increasingly isolated. Granted the attractiveness of the terms offered investors, and the ardent if discreet support of the British and United States governments, it was still a substantial coup for the bankers themselves, and in the first rank Jacob Schiff, whose role throughout was acknowledged to be central.

With his help, another large loan was underwritten at the conclusion of the war, for the purpose of redeeming some of Japan's 6% domestic bond issues. The

<sup>37</sup>Jacob H. Schiff to Mortimer Schiff, quoted in Gary Dean Best, 'Financial Diplomacy', *loc. cit.*, p. 137.

new foreign loan, with a 4% coupon and priced at 87, was in the amount of £25 million and was issued in London, New York, Berlin and Paris on 27th November 1905. Secured only by the credit of the Japanese Government, and yielding less than the preceding Japanese loans, the issue was nonetheless well received, if not as enthusiastically over-subscribed as its predecessors.

The willingness of the London and New York markets to absorb large amounts of Japanese bonds reflected active sympathy for the Japanese cause, and a growing admiration for Japanese competence in both military and financial spheres. For Jacob Schiff personally, the Japanese Government loans offered an effective means for striking back at the Russian Government for its oppression of his fellow-Jews. Disappointed by the lack of response to his appeal for cooperation from the French Rothschilds and Jewish banking circles in Berlin, he nonetheless persisted in his personal campaign, and was acclaimed in Tokyo—as indeed were Takahashi and lesser members of the banking group in London and Germany—for his steadfast support. Schiff was twice decorated by Japan, and in an unprecedented honour was received at luncheon by the Emperor Meiji. King Edward VII too, at the instance of Sir Ernest Cassel, their mutual friend, received Schiff and expressed his personal satisfaction at the cooperation of American bankers in floating the Japanese loans. Takahashi was rewarded with a barony, and later became Prime Minister of Japan.<sup>38</sup>

Commenting on Schiff's motives, his biographer Cyrus Adler put it:

“Acting as he did, according to his point of view, largely in a fiduciary capacity for his clients, it was natural that he would be influenced in his business transactions by strictly business considerations. But alongside of this strain, there was another, and perhaps a stronger, into which personal and sentimental considerations entered. The most notable case of the latter type was that of Russian loans in which, despite their great financial advantages, he steadfastly refused to participate.”<sup>39</sup>

The Japanese Government loans certainly were advantageous for Kuhn, Loeb & Co., and other members of the banking group, but for Jacob Schiff they also offered a rare opportunity to act on a deeply-felt conviction, with confidence that his financial support represented a material help to the Japanese war effort.

What then of the myth? As recently as 1975, Henry Coston, a French author of many works demonstrating to his satisfaction the existence of a world Jewish-Masonic-plutocratic conspiracy, wrote that “the Russo-Japanese War gave Kuhn, Loeb & Co. the opportunity to fight the Tsarism it hated. Kuhn, Loeb played the decisive role in that war by assuring Japan's financial resources.”<sup>40</sup> He goes on to say that at the same time, Kuhn, Loeb & Co. sent Russian-speaking agitators to Japan, whose assignment was to spread revolutionary ferment among Russian prisoners of war there. Furthermore, he adds, “we see Jacob Schiff again among the principal suppliers of money to the Bolsheviks in 1918—through Kuhn, Loeb & Co. at least \$450 million were advanced to Trotsky and Lenin with the assistance of a consortium of

<sup>38</sup>*Ibid.*, p. 140.

<sup>39</sup>Adler *op. cit.*, Vol. I, p. 251.

<sup>40</sup>Henry Coston, *Les causes cachées de la Deuxième Guerre Mondiale*, Paris 1975, p. 25.

Rothschilds, Lazards, Rockefeller and Morgan".<sup>41</sup> Coston concludes sweepingly: "it is indisputable that the Great War broke out in 1914 because international high finance put all its power into the effort to prevent a diplomatic solution to the conflict which had been prepared over many years with the sole aim of bringing down the Tsarist regime".<sup>42</sup> If this version represents the myth in one of its wilder forms, including an absurd banking consortium and grossly fictional sums of money, it nonetheless points to the well-known fact of Jacob Schiff's attitude and its practical consequences. Were Jacob Schiff's contemporaries convinced that he and his fellows wielded power on a world scale?

In his investigation of the attitudes of Russian Ministers to the Jewish Question, Hans Rogger tells us that even the most enlightened of these shared the "widespread belief in the solidarity of Jewish money and its power to control Russia's, perhaps the world's destinies".<sup>43</sup> Count Witte's meeting with Jewish leaders such as Oscar Strauss, Jacob Schiff and Isaac Seligman merely reinforced his view, typical of that shared by his colleagues, that "Russian and indeed world Jewry unquestioningly and unanimously recognized the authority of a single group of leaders, that Jewish money and Jewish political activity could be made to stop or start at the behest of a few wealthy men".<sup>44</sup>

But such views were not confined solely to Russian Cabinet Ministers. Shortly after the conclusion of the Russo-Japanese War, in the wake of pogroms that had flared up in several parts of Russia, *The Economist* published an editorial titled 'Jewish Financiers and Russian Outrages' that in its assumptions and its language bears some attention:

"Leading members of the Jewish community in London, headed by Lord Rothschild, are appealing for funds to assist the surviving victims of the atrocious outrages committed on their co-religionists in Russia. That such an appeal will be sympathetically received is certain; but, at the same time, it may be pointed out that the Jewish communities in the various capitals of Europe have an effective means at their disposal for bringing the Russian Government to book. The attitude of the autocracy towards the Jews is well-known and on the present occasion, the appeal to which we have referred asserts that the ferocious mobs which carried out the outrages were 'allowed by the official protectors of life and property to perpetrate their work of murder, mutilation, and pillage.' It would be far better to stop these abominations than to assist the victims after they have been committed, and we believe that the Jewish financiers could do this if they intimated that in future they would not only refuse to participate in any Russian loan, but would put every possible obstacle in the way of future Russian borrowing. This would paralyse the Government of the Tsar, which is only able to meet its engagements by means of borrowed money, and if the plan were adopted, the Russian authorities would in all probability be constrained to adopt every means in their power to protect the Jewish residents in that country, so as to induce the Jewish financiers to remove the boycott. Hitherto massacres of Jews seem to have had no effect whatever on Russian borrowing, and the Railway Loan issued in Paris just after the outrages at Kischineff in 1903 was subscribed for many times over."<sup>45</sup>

The editorial writer was perhaps too close to the events here described to

<sup>41</sup>*Ibid.*, p. 27.

<sup>42</sup>*Ibid.*

<sup>43</sup>Hans Rogger, 'Russian Ministers and the Jewish Question, 1881-1917', in *California Slavic Studies*, VIII (1975), p. 43.

<sup>44</sup>*Ibid.*, p. 65.

<sup>45</sup>*The Economist*, London, 11th November 1905.



appreciate that he had an example of at least one Jewish banker acting on the advice given above, with no visible effect on Russian Government policy *vis-à-vis* its Jewish population.

What are we, at this remove, to conclude? First, we can say with certainty that the Japanese loans were a profitable, highly visible success for Kuhn, Loeb & Co. and its syndicate partners. We also know that profit was not the sole motive that actuated Jacob Schiff: he had explicitly political aims in view; but punishing the Tsar for ill-treating the Jews was only one of the factors he as a prudent banker had to take into account. Japanese credit was a risk; but one that a banker could measure, weigh against potential advantage, secure to some degree. Investors' money was not to be tossed away for political ends. In short, the war loans made eminent sense on purely business grounds. Daring they may have been; imprudent or merely vindictive, certainly not.

Second, we know that despite the family cohesiveness of the great international banking dynasties of the time, rivalries and competition abounded. Such rivalries cut across national lines, and often made for oddly-matched, shifting, unpredictable financial groupings. In France and Germany, as Herbert Feis tells us, "and within the alliances which they headed it [capital] came to be commonly regarded as a servant of national purposes rather than an ordinary private possession to be disposed of in accordance with the private judgement and on the private risk of the owner".<sup>46</sup> Even in the heyday of *laissez-faire*, international bankers did not have an entirely free, peaceful and predictable world to move in; still less were they able singly or in concert to orchestrate great affairs of war or peace. Strongly as he felt personally about the Tsarist regime, Jacob Schiff was quite unable to prevent his fellow-Jewish bankers the French Rothschilds, or Bleichröders, from sponsoring Russian bonds. Indeed, once the First World War had started, he was unable even to carry his own Kuhn, Loeb & Co. partners with him when he continued adamantly to refuse personal participation in Allied war loans of which Russia too was to be a beneficiary.

This is not the stuff of conspiracy, however we choose to define it. We can only say, after examining this partial record of men and events, that Schiff and Cassel and Warburg, and indeed Takahashi too, played major roles in their respective countries in the era that Fritz Stern has characterised as one of "politics by notables".<sup>47</sup> They did not cause or prosecute the Russo-Japanese War; they were in a position to assist materially one of the belligerents, and they did so with a will.

More generally, the evidence for bankers' motives is at best elusive; conspiracy is notoriously hard to demonstrate; the historical record we have is full of gaps. The case of the Russo-Japanese War financing is the most compelling one we have for an assertion of the solidarity of international Jewish bankers; yet even in this instance, that solidarity was far from monolithic, to Jacob Schiff's intense chagrin. The reasons for the persistence into our day of the international banking myth lie outside the scope of this inquiry: the myth appears in any event to retain a vitality quite independent of mere evidence.

<sup>46</sup>Feis, *op. cit.*, p. 466.

<sup>47</sup>Stern, *op. cit.*, p. 225.

